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**MEMORANDUM**

January 14, 2014

To Our Clients and Friends

Re: Fed Proposal for Physical Commodity Activities by Financial Holding Companies

The Federal Reserve Board is requesting public comment on issues related to physical commodity activities engaged in by financial holding companies (“FHCs”). The Board is reviewing the scope of physical commodity activities it has authorized for FHCs and whether it is appropriate to impose limitations or conditions on such activities. Comments are due by March 15, 2014.

In considering the types of restrictions on physical commodity activities, the Board points to recent environmental disasters such as the Deep Water Horizon oil spill and the Fukushima power plant disaster and their associated litigation and financial fallout as examples of the dangers associated with holding physical commodities. The Board noted that current safeguards may not protect against a loss of public confidence in a FHC should it face liability associated with a disaster.

Additionally, the Board highlights current prohibitions on ownership and operation, safety policies and procedures, capital and insurance requirements, and corporate structures associated with physical commodity activities as areas for analysis. The request for comment contains a list of questions about the nature of the risks and potential conflicts of interest and adverse effects associated with engaging in physical commodity activities. After receiving public comments, the Board will decide if further rulemaking is appropriate.

A copy of the Board’s notice can be found at our website at <http://www.schwartzandballen.com/news.html>

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox, Heidi Wicker or Ben Gray at (202) 776-0700.